

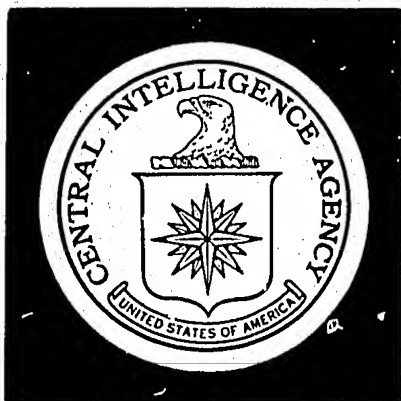
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**DIRECTORATE OF
INTELLIGENCE**

Intelligence Memorandum

Swaziland's Push For Development

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
October 1971

INTELLIGENCE MEMORANDUM

SWAZILAND'S PUSH FOR DEVELOPMENT

Introduction

1. During Swaziland's final two decades as a British High Commission Territory, which ended in 1968, its economy grew rapidly. Investments in mining, farming, and forestry resulted in large increases in exports and generated about a three-fold increase in domestic wage-employment. The momentum of growth was not maintained, however, and development has been negligible since independence. The government now is engaged in a push to renew export growth and to increase agricultural productivity and income. This memorandum describes the proposed projects that represent Swaziland's principal development hopes and analyzes their anticipated contributions to the economy.

Conclusions

2. Swaziland is preparing five major development projects. Two are designed to increase farm output and to alleviate a longstanding Swazi-expatriate land-ownership issue; a third is a large thermal electric powerplant intended mainly to export electricity to South Africa; and two are mining projects that will produce iron ore and asbestos for export. Combined with Swaziland's overall development effort, these projects should improve living standards and stimulate modest economic growth – an improvement over the near stagnation of recent years. The total impact, however, will be much less dramatic than that produced by the large investments of pre-independence years. During the 1970s the principal contributions will consist mainly of employment generated by construction activities, a considerable expansion of Swazi-owned land, and some improvement in food self-sufficiency and land and cattle management. The

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major contributions will not accrue until the 1980s when, under current planning, all five projects will have begun operation and the agricultural measures will have had time to take effect.

Discussion

Background

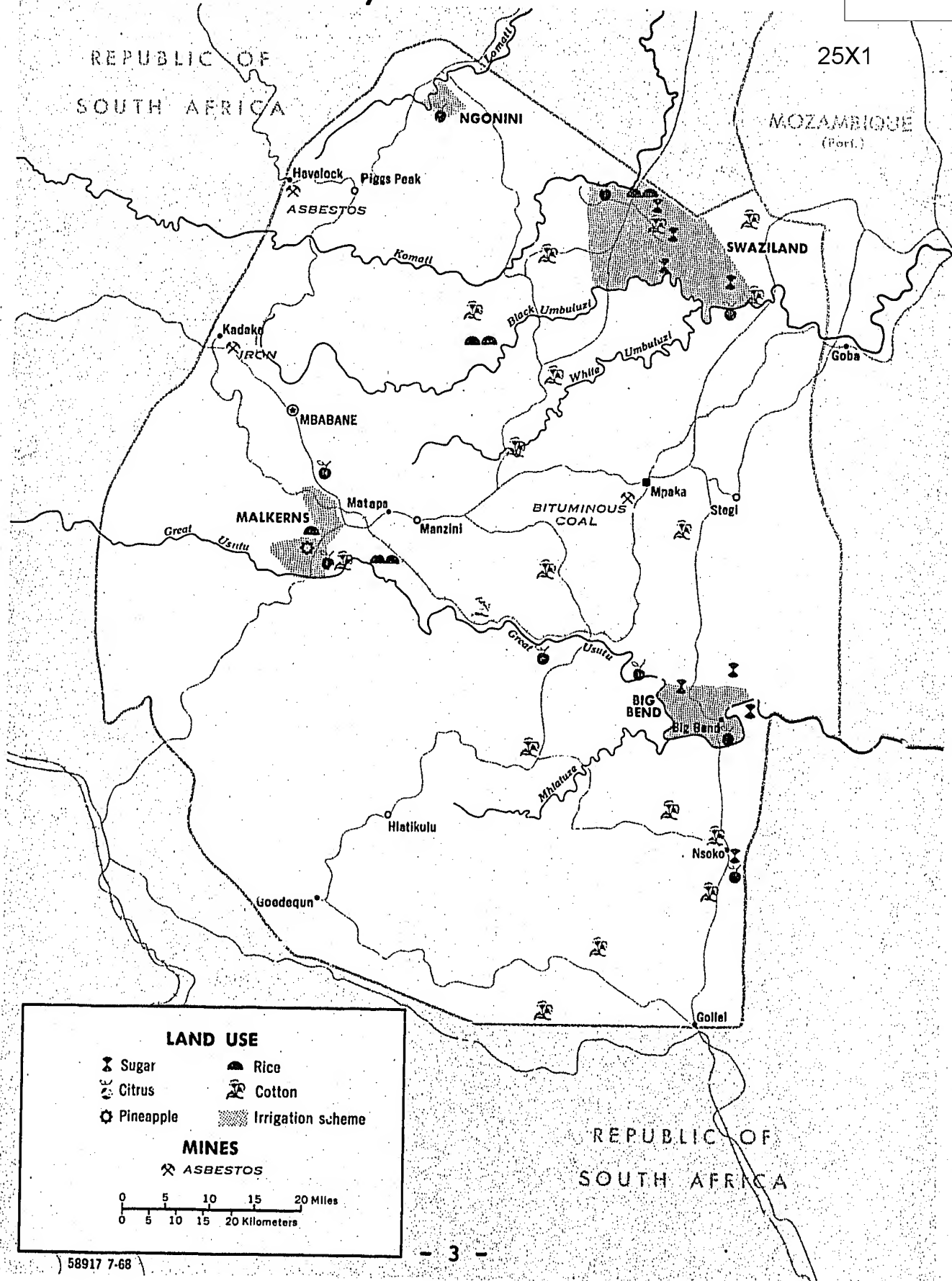
3. After four years of self-government, during which it was unable to retain the economic growth rate of its latter years as a British High Commission Territory, Swaziland has begun a number of large development projects to get its economy moving. It is a small landlocked country of only 6,700 square miles (about the size of Hawaii), bordering Mozambique on the east and enclosed by South Africa on the north, west, and south (see the map, Figure 1). Despite its smallness, however, it has remarkably diverse resources and topography. The mountainous western region has valuable mineral deposits - especially iron ore and asbestos. Much of the country is suited to forestry, and the grass-covered plateaus east of the mountains, the Middle and Low Velds, contain large coal deposits and are suitable for raising cattle and subtropical crops.

4. Land ownership has long been a sensitive political and emotional issue in Swaziland. The Swazi tribe, the predominant segment of its population of some 435,000, owns only 52% of the land area; most of the remainder is individually owned by white expatriate farmers (see the chart, Figure 2). Much of Swaziland was purchased by Europeans in the 19th century from Swazi chiefs. In 1907, however, a UK proclamation returned one-third of the land to the Swazi's, and repurchases since 1946 have enlarged Swazi-owned acreage. Regaining tenure over the remainder is a foremost goal of many influential Swazi tribal chiefs.

5. As in other African pastoral societies, live cattle are prized as items of wealth and prestige. Cattle are sold or slaughtered mainly to meet intermittent cash or food needs. As formerly prevalent livestock diseases have been controlled, the cattle herd has increased considerably - from 430,000 head in 1955 to nearly 570,000 in 1970. The burden on the limited grazing capacity of Swazi-owned land has increased and serious erosion has occurred. Much of the expatriate land, on the other hand, is underutilized.

6. Swaziland's economy roughly corresponds to the land tenure division. A modern export-oriented sector has been developed on expatriate and foreign concession land, while on Swazi-owned land the major occupations are subsistence farming and animal husbandry. Most Swazis earn

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CONFIDENTIAL**SWAZILAND: Economic Activity****Figure 1**

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a living mainly in the subsistence sector where agricultural yields are low, and harvests normally fall short of the country's food needs. The export sector, by contrast, is highly productive, contributing about two-thirds of the estimated \$75 million - \$80 million gross domestic product, employing about 75% of the wage earners (excluding those working in South Africa), and providing 90% of the direct taxes.

7. Export growth has been based almost entirely on South African and UK investment. During 1956-67, production of new forest plantations, sugar cane farms, orchards, and a newly developed iron ore mine increased Swaziland's exports four and one-half times (see Figure 3). Subsidiary processing facilities (two sugar mills, a wood pulp factory, and a fruit cannery are the most important) also began operations. In addition to increasing exports, the new industries approximately doubled tax revenues and increased wage employment for Swazi citizens from between 10,000 and 15,000 in 1956 to between 40,000 and 45,000 in 1966.

8. The export sector's growth momentum, however, has not been sustained. Although exports rose about 11% annually during 1969-70 new investment has been at very low levels and continued gains are not anticipated. In particular, large investments comparable with those that had spurred the earlier growth have been lacking. As a result, both employment and direct tax revenues have remained approximately constant since 1967. Furthermore, the high-grade iron ore deposit being exploited - accounting currently for more than 20% of exports - probably will be exhausted by about 1980.

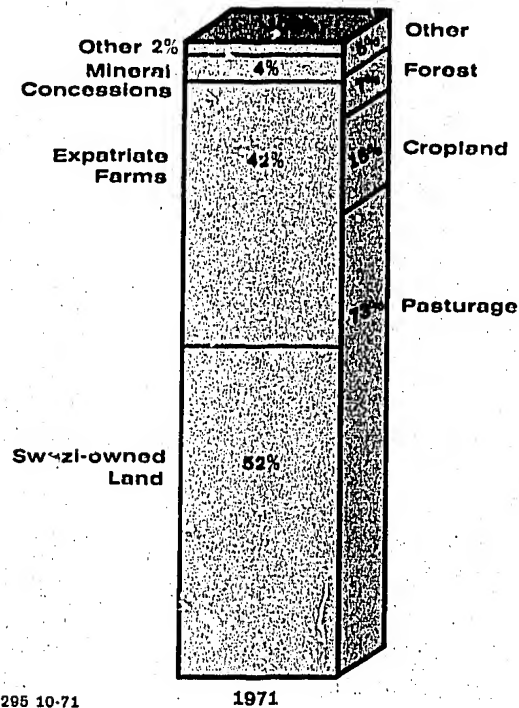
9. Moreover, the export industries have not generated benefits sufficient to improve the living conditions for most Swazi citizens. The Swazis retain only a minor portion of the export profits; most are repatriated to foreign owners. Because many of the younger, more capable Swazi men find wage-employment at least periodically, full time subsistence farming now is practiced mainly by older citizens, women, and children. As a result, crops often receive inadequate attention, especially during planting and harvesting.

10. To increase exports, employment, and farm output, Swaziland, in conjunction with foreign aid donors and investors (including the United States), now is preparing a number of large development projects. The program also is designed to alleviate the land ownership issue and to overcome traditional tribal customs that slow development. The most important projects are a land purchase and development program, an irrigated settlement program, a large thermal electric powerplant, an iron ore beneficiation plant, and an asbestos mine. Although the government is pursuing a number of smaller projects as well, these five represent the

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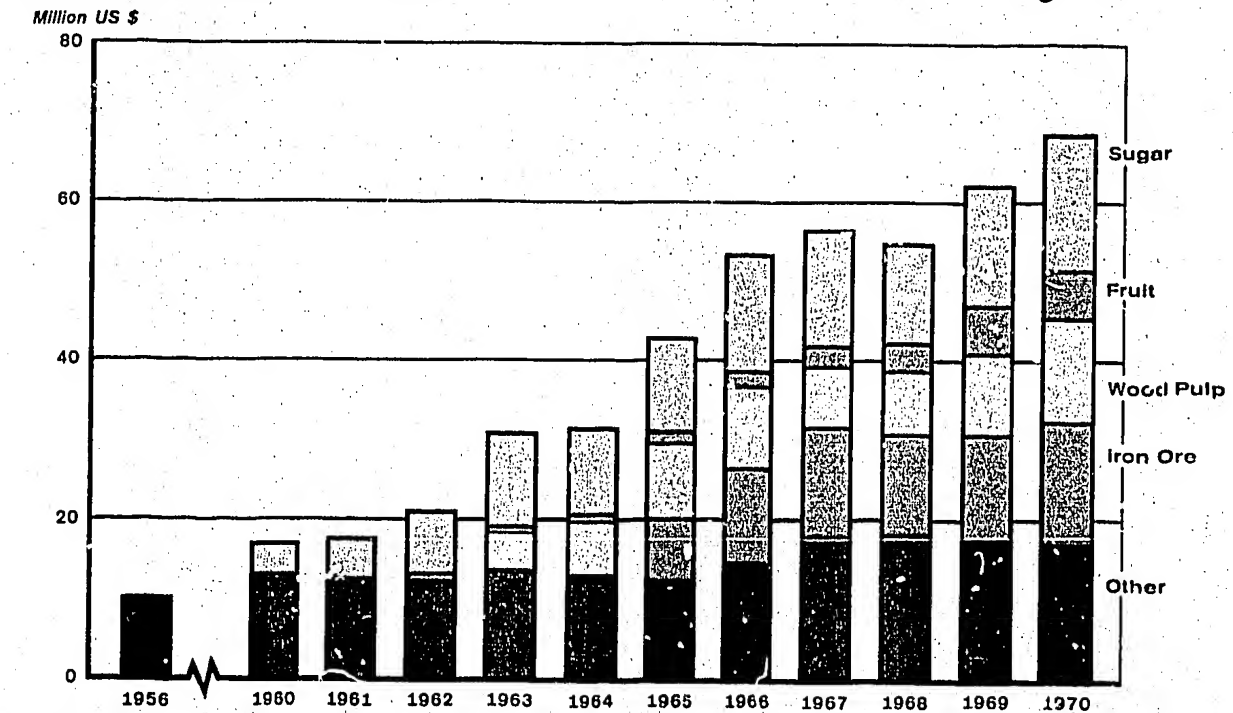
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Figure 2
Swaziland: Land Tenure and Use
 Total Area: 4.3 million Acres (6,700 square miles)



Swaziland: Export Growth

Figure 3

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country's principal development hopes for the 1970s. Information concerning the projects is shown in Table 1.

The Major Development Projects

11. The five major projects include both official development programs, planned and funded by the government with the help of the United Kingdom, the United States, and other aid donors, and projects dependent on foreign private capital. The land purchase and irrigation projects are government schemes to involve subsistence farmers in commercial production, thus increasing agricultural productivity and incomes. The thermal electric plant also is an official project, but its major goals are to increase exports and meet future electricity needs. The beneficiation plant and asbestos mine are projects of South African and UK firms, but the government, aided by the United Nations Development Program (UNDP), is involved in prospecting and feasibility studies. Both of these projects would produce solely for export.

12. The land purchase and development program is the most sweeping in terms of the numbers of people and the size of the area directly affected. Nearly 1 million acres of expatriate-owned land will be purchased and developed for Swazi use. The first phase, scheduled for completion in 1975, involves some 12,000 to 13,000 families and 216,000 acres located mainly in the mountainous western region. It will cost about \$4.2 million.

13. The first phase will be linked to an earlier program, which has largely lapsed. Begun in 1966, this program had attempted to create eight Rural Development Areas of about 10,000 acres each, where spending would be concentrated to increase the impact of limited available resources. Under the new program, three Rural Development Areas will be reactivated and three new ones created. Former expatriate-owned land adjoining these areas will be used to pasture locally owned cattle.

14. Swaziland's second major agricultural program would irrigate up to 60,000 acres and resettle 3,000 families on small farms. The government has not yet decided on a specific program, but a number of roughly similar projects have been proposed. A UNDP scheme, for example, recommends constructing a \$6.3 million dam on the Mhlatuze tributary of the Great Usutu River as a first stage. The dam would be completed in 1980 and would irrigate 10,000 acres in the Great Usutu River basin. The newly irrigated land would be parceled in 6-acre plots among 1,400 families and in government operated farms totaling 1,600 acres. Cotton, corn (maize), and winter vegetables would be grown both for export and for domestic needs.

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Table 1

Swaziland: Five Major Development Projects

Project	Status	Major Features
Land purchase and development (first phase)	Pilot projects	Scheduled completion: 1975. Major goals: enlarge Swazi-owned area, move 12,000-13,000 families into commercial agriculture, increase ranching yields and reduce herd size, double participating families' income, and reduce counterproductive tribal customs.
Irrigated settlement (UNDP proposal, first phase)	Planning stage	Estimated completion: 1980. Major goals: irrigate 10,000 acres, establish 1,400 family farms and 1,600 acres in government farms, triple participating families' incomes, and reduce communal land tenure.
Thermal electric powerplant	Market research; fuel (coal) prospecting completed	Scheduled completion (first phase): 1979. Major goals: export (ultimately) 1,500 megawatts to South Africa and supply future domestic electricity needs.
Iron ore beneficiation plant	Developing ore reserves; railroad extension feasibility	Major goals: maintain iron ore exports beyond estimated life of existing mine, increase tax revenues, maintain profitable utilization of existing railroad and coal mine, and obtain additional rail outlet.
Asbestos mine	Developing ore reserves	Major goals: increase asbestos exports and increase tax receipts.

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15. Although irrigation is not new in Swaziland, the irrigated settlement program is the first attempt to provide irrigation on a large scale for Swazi-owned land. Almost all currently irrigated acreage -- some 70,000 acres -- is on expatriate land, producing sugar, rice, and citrus fruit exclusively for export. Less than 3% of the acreage planted in corn, the major staple cereal grown by Swazis, is irrigated.

16. The \$225 million coal-fueled thermal electric powerplant is the most expensive development project. The plant would produce electricity both for export to South Africa and for future domestic needs. Its ultimate capacity -- in the range of 1,500 megawatts (mw) to 2,000 mw by 1990 -- rivals that of Egypt's Aswan High Dam. The estimated 500 million tons of coal in the Low Veld would last at least 25 to 30 years. The project reportedly is "definitely on," and the first stages may begin operations by 1979.

17. Because the plant's projected capacity far exceeds Swaziland's own needs, which are less than 100 mw, the project's viability hinges on South Africa's willingness to purchase most of the output. South Africa initially has agreed to purchase 1,000 mw at prices competitive with its own producers.

18. Swaziland is particularly anxious to build the iron ore beneficiation plant to insure iron ore exports after 1980. The viability of two other major enterprises -- the country's only railroad and coal mine -- and a sharp increase in tax revenues for discretionary spending hinge on continuing iron ore exports. Most taxes paid by the iron mine are now used to amortize a \$27 million railroad construction loan and will not be available for other spending until 1979, which approximately coincides with the anticipated depletion of high-grade reserves. The railroad was built mainly to transport iron ore to Mozambique, where it is transshipped to Lourenco Marques for export. Although the railroad serves other interests as well, it probably would not be profitable without the iron ore business. Similarly, the coal mine was opened mainly to fuel the railroad's locomotives. Coal production has grown, and the mine now depends on the railroad not only as a major customer but also to move coal for export to Kenya and Mozambique.

19. The beneficiation plant is being held up pending the results of a UNDP survey of the extent and quality of Swaziland's low-grade iron ore reserves. Japan probably will buy most of the plant's output. Japan has purchased the entire output of the existing mine and contracted in 1970 to continue purchases at about the current level -- 2.5 million tons per year -- through 1977.

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20. The second minerals project -- the proposed asbestos mine -- would be located near the country's northwestern border and adjacent to an existing asbestos mine at Havelock. The asbestos deposit currently is being prospected and developed by the London Rhodesian Mining and Land Co. Ltd. (Lonrho). If investment is committed soon, the mine could begin production before 1975. Output should reach 10,000 tons of chrysotile asbestos annually and increase Swaziland's total output by about 25%.

Financing

21. Swaziland is counting almost entirely on foreign sources for funding its five development projects. UK grants and loans make up 63% of the \$13.4 million budgeted for development in fiscal year (FY) 1971/72*; loans by the United States, Sweden, and two South African commercial banks make up 32%; and the remainder -- about \$700,000 -- will be funded from domestic tax revenues. The United Kingdom has agreed to finance a large portion of the land purchase and development program and has committed \$3.6 million for the first phase. The United States has budgeted a \$2.2 million loan, of which 77% will be utilized to purchase heavy construction equipment for the Rural Development Areas, and 23% will serve as credit to small farmers in the program. Financing for the irrigated settlement project and the electric powerplant is expected to be raised as the planning and preparation work is completed. The government will contribute to the two mineral projects by granting tax relief during their first years of operation, but the capital will come from private South African and UK firms.

22. Local funding for the development program was given a substantial boost in December 1969, when new terms for distributing Southern African Customs Union revenues among member countries (South Africa, South-West Africa, Lesotho, Botswana, and Swaziland) were negotiated. Swaziland's share of the Union's total revenues was increased from 0.53% to 1.5%, and budgeted customs receipts increased in FY 1969/70 to more than \$10 million (see Table 2), or about half of government revenues in contrast to only one-fifth during FY 1968/69. The new revenues replaced UK grant aid that had helped meet recurrent expenditures. Relieved of these grants, about \$3.7 million annually during 1963-69, the United Kingdom agreed to finance the land purchase and development program and to increase other development funding.

Anticipated Gains

23. The five development projects should increase wage- and self-employment, tax revenues, and exports substantially. The principal

* The fiscal year extends from 1 April through 31 March.

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Table 2

Swaziland: Government Revenues and Expenditures^a

	Million US \$			
	<u>1968/69</u>	<u>1969/70</u>	<u>1970/71^b</u>	<u>1971/72^c</u>
Revenues from domestic sources	14.5	21.8	21.0	24.1
Customs duties	2.8	10.5	9.4	11.9
Other	11.6	11.3	11.6	12.3
Revenues from foreign sources	8.7	4.0	7.1	13.4
UK recurrent grants	4.6	0.6	0	0
UK development aid	3.0	2.6	5.9	8.4
Other	1.1	0.8	1.2	5.0
/	/	/	/	/
Total resources	23.2	25.8	28.1	37.5
Recurrent expenditures	19.8	20.3	21.2	24.1
Development expenditures	3.4	3.2	3.9	13.4
Total expenditures	23.2	23.5	25.1	37.5
Balance	-	+ 2.3	+ 3.0	-

a. Because of rounding, components may not add to the totals shown.

b. Preliminary.

c. Budget.

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contributions of the land purchase and development program and the irrigated settlement program will consist of increased self-employment and agricultural productivity, particularly in food crop production and animal husbandry. The three industrial projects will raise incomes directly for a relatively small number of Swazis who will share their profits and wage-employment, but their major contributions will be in exports and new tax revenues. The decision to go ahead with the powerplant also will encourage establishment of small industries, negotiations for 30 of which currently are under way. The proposals, coming from Japanese, British, German, and South African firms, represent a total investment of some \$28 million.

24. Combined new wage- and self-employment generated by the five major projects probably will total about 20,000 positions. The irrigated settlement program and the first phase of the land purchase and development program alone will generate self-employment opportunities for the heads of 15,000-16,000 families. Although official estimates of wage-employment generated by the three industrial projects have not been reported, it probably will amount to approximately 2,500-5,000 - an increase of about 10% above present wage-employment.

25. Export increases will be generated principally by the powerplant and the asbestos mine; although the beneficiation plant will produce for export, its output probably will no more than replace present exports of high-grade ore. The two agricultural projects may yield new exports in the long run, but their contribution to domestic food needs will be of more immediate importance. A substantial increase in maize production could replace cereal imports, now costing from \$1.5 million to \$2.5 million annually.

26. The agricultural programs' income goals are relatively modest. The land purchase and development program and the UNDP's proposal for the irrigated settlement program's first phase are expected to raise participating family annual incomes to \$400-\$500 and about \$700, respectively. Currently, family income in the subsistence sector is estimated at about \$250 per year.

27. The first phase of the land purchase and development program is designed to modify the Swazi tribe's cattle-based value system and to reduce the cattle herd. A government-appointed manager will have the authority to market cattle grazed on the program's newly purchased land. In return, the owners will receive both income and a guaranteed "right" to replace the marketed cattle. By owning replacement "rights," the Swazis will be able to maintain cattle-based wealth without actually owning cattle, and it is hoped that a portion of the owners will open savings accounts rather than exercise their replacement rights.

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28. Both agricultural programs will tend to undermine the communal land tenure system, which has hampered past efforts to develop Swazi commercial farming. Currently, local chiefs allocate Swazi-owned land for family occupancy and grazing. Even though individuals rarely are deprived of their land-use rights, which pass to heirs after death, no land is individually owned, and land sales or purchases are nonexistent. A system of individual land tenure is a requisite to both programs to enable participants to use their land as collateral for financing improvements and to insure that benefits from increased productivity will accrue to the individual producers. Although a tenure program still has not been enacted, the government is considering granting long-term leases to the programs' participants. Such a system may foreshadow the formalization of stable individual land tenure.

29. Finally, the land purchase and development program is intended to alleviate, at least partly, the politically charged Swazi-versus-expatriate land-ownership issue. When fully implemented, the program will purchase about half of the expatriate-owned land. Although many tribal chiefs tend to view this amount as inadequate, the prospective purchases probably will defuse the issue in the short run.

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